



PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS



QUESTIONS

PART A: Multiple Choice Questions

Integrated Case Scenarios

WYZ Ltd., incorporated during the year 2002-03, is a leading unicorn startup and top manufacturer of silicon wafers, with two advanced plants and over 6,000 employees. As a pioneer in its industry to be listed on the stock exchange, WYZ Ltd. underscores its longstanding and influential presence in the financial market. The company consistently complies with SEBI's Listing Obligations and Disclosure Requirements Regulations of 2015, ensuring regulatory adherence and maintaining credibility among investors and stakeholders.

Considering the nature, size and extent, the company has appointed M/s KAP & Co. and M/s BMS & Co. as their joint auditors. Both the Firms divided the work in accordance with the SA 299, shared the allocation of task to Those Charged with Governance and started conducting the audit procedures.

During the audit engagement, M/s KAP & Co. was assigned to verify the Property Plant & Equipment (PPE) Register. Mr. K, the engagement partner of M/s KAP & Co., carried out the verification process, however, he did not maintain any documentation of the same. Additionally, he did not perform impairment testing on the PPE at the end of the financial year.

Mr. B, the engagement partner of M/s BMS & Co., was responsible for verification of procure to pay process (P2P). However, he was informed by management that Mr. E, their Internal Auditor, has already verified P2P Process and carried out relevant audit procedures and thereby he relied on the work of Mr. E. He neither conducted any independent audit procedure to evaluate the work of the internal auditor nor documented his conclusion regarding the evaluation of the adequacy of work of internal auditors.

Moreover, looking at the increase in the scale of business, the management of WYZ Ltd. took the decision to implement ERP in its business during the year and gave contract to INFO Ltd. to develop an ERP suitable for its business. The development of ERP was completed on Aug 12th, 2023. The management started adoption of ERP and replacing its old practices. The adoption took a span of 4 months and was successfully completed on Dec 3rd, 2023. The previous software did not have an audit trail feature and the audit trail was operational from Dec 3rd, 2023. However, the auditors of the company have not reported anything on the above matter relating to the audit trail in their main audit report.

In addition to the above, the WYZ Ltd., has one Indian wholly owned subsidiary, ABC Private Ltd., who is in the business of acquisition of shares and securities. M/s PQR & Co. are the auditors of ABC Private Ltd.

The important financial information of ABC Private Ltd. is as under:

Sr. No	Particular	Amount (₹)
1.	Paid-up Capital	₹ 67 Lakhs
2.	Loans and Borrowings from Financial Institution	₹ 72 lakhs
3.	Turnover	₹ 154 lakhs
4.	Reserve and Surplus	₹18.36 lakhs

Based on the above case scenario, answer the following MCQs:

- Mr. K, the engagement partner of M/s KAP & Co, failed to maintain any documentation of the whole verification process and did not perform impairment testing on the PPE at the end of the financial year. Select the appropriate option as per SA 299.
 - Mr. K is severally responsible for his own actions and the said work was his responsibility.
 - No, Mr. B & Mr. K are jointly responsible as they both were joint auditors.
 - Mr. K is responsible as well as Mr. B is responsible, since Mr. B was compulsorily required to verify the work of Mr. K and he has not verified the same.
 - Neither Mr. K nor Mr. B is liable for the actions of Mr. K.

2. The management of the company has adopted a new ERP system and accordingly, the audit trail was maintained from Dec 03rd, 2023 only in the new ERP System. Whether the action of auditors with respect to reporting requirement of audit trail was justified?
- (a) Yes, the action of auditors was justified as it was the first year of implementation of ERP. Hence the auditors are not liable to report the same.
 - (b) Yes, the action of auditors was justified as the audit trail was operational during the year and hence the auditors are not liable to report the same.
 - (c) No, the action of the auditors was not justified as the audit trail was not operational throughout the year and hence it is the duty of the auditors to report the same in the main audit report.
 - (d) Yes, the action of the auditors was justified as the audit trail need not to be reported in the main audit report.
3. Mr. B, engagement partner of M/s BMS & Co., was responsible for verifying Procure to Pay Process, he did not perform any procedure and relied upon the work of Internal Auditor, without keeping any documentation. Which of the following is correct as per SA 610?
- (a) Mr. B can rely on the work of the Internal Auditor. However, he must first discuss with Internal audit function and also evaluate the adequacy of work of Internal Auditor and must document the same regarding the evaluation of work of Internal Auditor.
 - (b) Internal Auditor has already performed audit procedure on the P2P Process and hence the Statutory Auditor can rely on the work without any further audit procedure and documentation.
 - (c) Audit procedure and the scope of Internal Audit are altogether different from Statutory Audit and therefore, the Statutory Auditor cannot use the work of Internal Auditor.
 - (d) Internal Auditor has already performed audit procedure on the P2P Process and hence the Statutory Auditor can rely on the work of Internal Auditor after evaluating his work. However, Statutory auditor is not required to document the same.

4. Considering the above case, whether reporting under CARO, 2020 will be applicable to ABC Private Ltd.?
- (a) No, since the company is a private limited company.
 - (b) No, since the company is in the business of acquisition of shares and securities.
 - (c) Yes, since the company is wholly owned subsidiary of listed company WYZ Ltd.
 - (d) No, since the company is a small company as per the Companies Act, 2013.
5. While preparing a consolidated financial statement of WYZ Ltd., division of responsibility between auditors of WVZ Ltd. and auditor of ABC Private Ltd. should be reported in:
- (a) Emphasis of Matter Paragraph.
 - (b) Key Audit Matter Section.
 - (c) Going Concern Paragraph.
 - (d) Other Matter Paragraph.

Independent MCQs

6. Suban Engineering, a borrower of the branch, had fully utilized its sanctioned cash credit limit of ₹ 400 Lacs, with an outstanding balance of ₹ 413 Lacs as of March 31, 2024. The bank classified the account as a Sub-standard Asset.

During an inspection, the DGM observed that the borrower's premises were damaged, with no machinery, stock, or other assets present. The borrower was unreachable, and an independent verification of assets confirmed that no mortgaged security was available, except for a piece of land with a realizable value of ₹ 33 Lacs. The bank accepted this report and made a provision considering the account as a Sub-standard Asset.

Whether correct classification and provisioning norms have been applied in the account of Suban Engineering?

- (a) The account is correctly classified, but provision should be made for hundred percent of the unsecured portion besides making specified provision on secured portion.
 - (b) The account should have been classified as Doubtful asset and besides making required provision on secured portion, provision should have been made for hundred percent of the unsecured portion.
 - (c) The account should have been classified as Loss asset and full provision should have been made in the books of accounts.
 - (d) The account should have been classified as Doubtful asset and full provision should have been made in the books of accounts.
7. CA Praveen is appointed by KSN Ltd. for the year 2023-24. While verifying payroll data of the company, it has come to his notice that provisions of law preventing employment of child labour are not being adhered to and company is employing child labour. The company also exports part of its turnover and matter has gone unnoticed in compliance audits carried out by agencies of overseas buyers.
- With respect to the auditor's observation relating to the matter of child labour, which is the most appropriate course of action for him to proceed in this matter?
- (a) CA Praveen should ignore the matter as it will not affect financial statements.
 - (b) CA Praveen must report the matter to the concerned government department.
 - (c) CA Praveen should obtain further information to evaluate the possible effect on financial statements. Besides, he should evaluate implications of non-compliance for audit risk assessment.
 - (d) CA Praveen should express a modified opinion in the audit report.
8. Mohini Ltd. paid their arrears of undisputed statutory dues just a day before the date of the audit report. After this, now the auditor believes that only disputed dues need to be reported under the CARO, 2020 as undisputed dues are paid before the date of the audit report. Which of

the following is the most appropriate course of action for the auditor in this situation?

- (a) The auditor is required to report the disputed statutory dues only in accordance with clause (viii)(b) of Para 3 of CARO, 2020, as there is no requirement to report undisputed statutory dues if they are paid on or before the date of the audit report.
- (b) The auditor is required to report both disputed and undisputed statutory dues in accordance with clause (vii)(a) & (b) of Para 3 of the CARO, 2020.
- (c) The auditor should consult with legal counsel to determine the specific reporting requirements for disputed and undisputed statutory dues under CARO, 2020.
- (d) The auditor should discuss the matter with management and obtain their agreement to report both disputed and undisputed statutory dues in the CARO, 2020 report.

PART B: DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

Quality Control

9. M/s JinKushal & Co. has been appointed as an auditor of SC Ltd. for the financial year 2023-24. CA Jin, one of the partners of M/s JinKushal & Co., completed entire routine audit work by 19th June, 2024. Unfortunately, on the very next morning, while roving towards office of SC Ltd. to sign final audit report, he met with a road accident and died. CA Kushal, another partner of M/s JinKushal & Co., therefore, signed the accounts of SC Ltd., without reviewing the work performed by CA Jin. State with reasons whether CA Kushal is right in expressing an opinion on financial statements, the audit of which is performed by another auditor.

Audit Evidence

10. During the audit of the financial statements of Looks Limited for the year ended March 31, 2024, CA Suyash, the statutory auditor requested

external confirmation for certain trade receivables and trade payables as part of audit procedures in accordance with SA 505:

- (i) CA Suyash sent a confirmation request to a debtor for balance of ₹ 15,50,000 which was outstanding for more than 6 months, insisting him to respond directly to the auditor, confirming whether they agree or disagree with the balance stated.
- (ii) He also sent a confirmation request to a creditor with an outstanding balance of ₹ 13,25,000 requesting a response only if there was a disagreement with the stated amount.

CA Suyash received responses from the aforementioned debtor and creditor in following manner:

- The debtor confirmed that, as per their records, they owed ₹ 14,90,000 to Looks Limited instead of ₹ 15,50,000 as per the company's books.
- The creditor did not respond to the confirmation request.

Identify and explain the type of confirmation request sent by the auditor to the debtor and creditor. Also, discuss the course of action the auditor should take for the discrepancy in the confirmation received from the debtor and non-receipt of confirmation from the creditor.

Completion and Review

11. Udit & Co. is the statutory auditor of Fun Journey Ltd., a company engaged in the tours and travel business. The company has an annual turnover of ₹ 1,200 crores and profits of ₹ 150 crores. While planning, the auditors discussed the requirement for a written representation letter from management for confirming that:
 - (i) The auditor is provided with all relevant information and access as agreed in the terms of the audit engagement; and
 - (ii) All transactions have been recorded and are reflected in the financial statements

As the audit was near to completion, the auditor disagreed with the management on one of the matters including need of written representation contending that verbal confirmations given during the

audit should be sufficient. Thus, separate written representation is not required. Udit & Co., however, explained that under SA 580 obtaining a formal written statement from management is mandatory. Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests.

- (a) Whether the contention of auditor for seeking written representation letter is justified?
- (b) What should be the form of such written representation?
- (c) How should the auditor proceed if management refuses to provide the written representation?

Reporting

12. Comment with reference to the provisions of CARO, 2020:

- (a) Relon Limited has a turnover of ₹ 650 crores during the financial year 2023-24. It has outstanding dues towards income-tax of ₹ 15 lakhs since July 2023. When inquired by the auditor, the company's management informed him that they have filed an objection letter for the said demand with the Income-tax Authorities, however, no response is received from the department. Is there any reporting responsibility of auditor under CARO, 2020?
- (b) During the audit, CA Kunal found that physical verification of inventories of the company has been conducted by management on regular interval. The following is a summary of inventory as per physical verification conducted by management vis-à-vis its books of accounts as at the year-end:

(Amount ₹ in crores)

Particulars	As per physical verification	As per books of accounts
Raw material	1,160	1,180
Work-in-progress	410	430
Finished goods	2,500	2,790
Stores and spares	220	180
Total	4,290	4,580

Audit Related Services

13. Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and issues a report.
- (i) For what purposes may the financial information prepared under such an engagement be required?
 - (ii) Briefly discuss the elements of Practitioner's report for such engagement.

Digital Auditing and Assurance

14. Yuvi, a finance manager at DCB Ltd., received a text message on his mobile phone claiming to be from his bank. The message states that:
- "Dear Customer, Your account has been temporarily suspended due to suspicious activity. To reactivate, please verify your details by clicking on the following link: [sendyourinfo-link.com]. Failure to do so within 24 hours will result in account deactivation. Thank you for banking with us".
- Yuvi is worried about his account security. Which type of phishing cyberattack Yuvi fell victim to? Also explain other types of such phishing attack.

Group Audits

15. Advik Investments Ltd. is a company having paid up share capital of ₹ 1 crore, it has a subsidiary, Investors Fund Management Ltd. Major business of Advik Investments Ltd. is to pool money from investors on a collective basis and invest this money in various funds. This company pooled ₹ 10 crore from a number of clients, which represent the Company's shareholders.
- While auditing books of accounts of Advik Investments Ltd. CA Chirag observed that whole amount of ₹ 12 crore pooled has been invested in shares and debentures of various companies and profit earned due to appreciation of the prices of these shares has been distributed to

various shareholders of the company. The performance of all of its investments is measured on fair value basis.

Now, CA Chirag raised an issue while auditing financial statements of Advik Investments Ltd. whether the consolidated financial statements are required as per Section 129(3) of the Companies Act, 2013? Analyse the above issue and give your opinion.

Special Features of Audit of Banks & Non-Banking Financial Companies

16. Nutan & Co. has been appointed as a statutory auditor of JOE Bank Ltd., a private sector bank, registered with RBI. Mr. Chahal, the engagement partner, while performing the audit as per the checklist, noted down the following points, which would be part of the audit queries, as tabulated below:-

Sr. No.	Queries
1	One of the NPAs' was sold for a value higher than the net book value. Profit was not recognized but the excess provision in respect of the same has been reversed.
2	Interest in a State Government Guaranteed advance has been taken to income even though such advance has remained overdue for more than 90 days.
3	There is an account for which the ad hoc limit has not been reviewed for 180 days from the date of such ad hoc sanction and such account has been treated as a performing asset in the books.
4	On verification of outstanding forward exchange contracts, the 'net position' in respect of one of the foreign currencies was not squared and was uncovered by a substantial amount.
5	In the case of one of the accounts, an additional temporary limit has been sanctioned for 25% of the existing limit and for 120 days tenure.

Please provide the reasons due to which such queries would have been raised by Mr. Chahal and describe the actions that may be taken by the person responsible on behalf of JOE Bank Ltd. for solving such queries.

Overview of Audit of Public Sector Undertakings

17. A state government owned PSU was involved in setting up of a thermal power plant in the state. The C & AG, in its audit report, pointed out delay in completion of work due to failure to decide on the type of water treatment in the cooling plant on a timely basis. Besides, other reasons leading to delay like frequent changes in lay-out and re-testing of soil by the company were pointed out. What kind of audit is referred in the above case? Describe the methods which could be used in conducting such audits.

Due Diligence, Investigation & Forensic Accounting

18. MF Ltd., a manufacturing company specialising in industrial and consumer products, has been experiencing significant inventory shortages despite maintaining detailed procurement and production records. The management suspects fraudulent activity, as discrepancies have been noticed in stock reconciliation, production wastage reports, and inventory adjustments.

Some of the reason for suspicion include:

- Manual adjustments in stock records on frequent basis.
- Higher than usual production wastage, inconsistent with historical data.
- Raw materials recorded as issued for production but missing from factory floors.
- Finished goods dispatched but not recorded in sales accounts.
- Unexplained inventory shrinkage over consecutive months.

Considering the above, you are appointed by MF Ltd. to evaluate the options for verifying the process to reveal fraud and the corrective action to be taken. As an investigating accountant what will be your areas of verification and the procedure to be followed for verification of defalcation of inventory?

Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance

19. Sukaran Ltd., a leading textile manufacturing company, has been facing criticism from its employees regarding various workplace concerns. Some employees have raised issues about delayed salary payments, while others have reported excessive working hours that affect their work-life balance. Additionally, a few workers have complained about inadequate safety measures in the factory, leading to frequent minor accidents. Which principle of BRSR deals with this? Mention the core elements of this principle.

Professional Ethics & Liabilities of Auditors (New)

20. (a) KB and Associates are appointed as Statutory Auditors of the Iron Company Ltd. The Central Government holds 72% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to KB and Associates for accepting the audit. CA Yash, the engagement partner, communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving a reply from the previous auditor. Hence CA Yash gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the schedules thereunder, whether CA Yash has complied with same.
- (b) If CA Yash is guilty of misconduct in the above situation given in part (a), then before which authority, the matters of CA Yash would have been placed and what punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949?

**SUGGESTED ANSWERS/HINTS****PART A: Answers to Multiple Choice Questions**

1. (a)
2. (c)
3. (a)
4. (c)
5. (d)
6. (c)
7. (c)
8. (b)

PART B: Answers to Descriptive Questions

9. **Relying on Work Performed by Another Auditor:** As per SA 220 "Quality Control for an Audit of Financial Statements", an engagement partner taking over an audit during the engagement may apply the review procedures such as the work has been performed in accordance with professional standards and regulatory and legal requirements; significant matters have been raised for further consideration; appropriate consultations have taken place and the resulting conclusions have been documented and implemented; there is a need to revise the nature, timing and extent of work performed; the work performed supports the conclusions reached and is appropriately documented; the evidence obtained is sufficient and appropriate to support the auditor's report; and the objectives of the engagement procedures have been achieved.

Further, as per the Code of Ethics it is the auditor's professional responsibilities and should be complied with that when the auditor delegates work to assistants or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill

and care and is not aware of any reason to believe that he should not have so relied.

However, the auditor should carefully direct, supervise and review the work delegated. He should obtain reasonable assurance that work performed by other auditors/experts and assistants is adequate for his purpose.

In the given case, all the auditing procedures before the moment of signing of final report have been performed by CA Jin. However, the report could not be signed by him due to his unfortunate death. Later on, CA Kushal signed the report relying on the work performed by CA Jin. Here, CA Kushal is allowed to sign the audit report, though, will be responsible for expressing the opinion. He may rely on the work performed by CA Jin provided he further exercises adequate skill and due care and review the work performed by him.

- 10. Positive confirmation request:** A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request or providing the requested information.

Exception – A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party. The exception needs to be assessed to the entire population after analyzing the reason for difference.

In the given situation, the auditor has sent the positive confirmation request for the amount of ₹ 15,50,000 to a debtor which was outstanding for more than 6 months, however, due to difference between information requested to be confirmed, or contained in the entity's records (i.e. ₹ 15,50,000), and information provided by the confirming party (i.e. ₹ 14,90,000) is forming situation of exception confirmation.

The auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in concluding whether sufficient appropriate audit evidence has been

obtained or whether performing further audit procedures is necessary, as required by SA 330 in case a response is indicating an exception.

The company should be asked to investigate and reconcile the discrepancy indicated by the confirming party.

Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees. In the given case, the auditor has sent the negative confirmation request for ₹ 13,25,000 to a creditor. Non- response by the creditor implies that creditor agrees with the amount. Thus, an auditor is not required to take any action in this case.

11. (a) As per SA 580, "Written Representations", the auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement.

Further, the auditor shall request management to provide a written representation that:

- (i) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement
- (ii) All transactions have been recorded and are reflected in the financial statements.

In the given case, Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests. Thus, in view of above the contention of auditor is correct.

- (b) The written representations as per SA 580, shall be in the form of a representation letter addressed to the auditor. If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required, the relevant matters covered by such statements need not be included in the representation letter.

- (c) As per SA 580, if management does not provide one or more of the requested written representations, the auditor shall:
- (i) Discuss the matter with management;
 - (ii) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
 - (iii) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 (Revised).

Furthermore, the auditor shall disclaim an opinion on the financial statements in accordance with SA 705 (Revised) if the auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required are not reliable or management does not provide the written representations required.

Thus, refusal to provide a written representation could impact the auditor's ability to obtain sufficient appropriate audit evidence, potentially leading to a modified audit report.

12. (a) **Reporting responsibility of the auditor under paragraph 3 of CARO, 2020:** The auditor is required to report as per clause (vii) (a) of Paragraph 3 of CARO, 2020 that whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;

Further, the auditor is also required to report as per Clause (vii) (b) of Paragraph 3 of CARO, 2020, where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute).

In the given case, Relon Limited has an outstanding Income-tax liability of ₹ 15 lakhs since July 2023. Although the management has filed an objection letter, no formal dispute has been raised, and the dues remain unpaid for more than six months.

Therefore, the auditor is required to report the same under clause (vii)(a) of Para 3 of CARO, 2020.

- (b) As per clause (3)(ii)(a) of CARO, 2020, the auditor is required to report whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed on physical verification conducted by management and if so, whether they have been properly dealt with in the books of account.

**Computation of % of discrepancies found in physical
verification and Books of Accounts**

Particulars	As per physical verification	As per books of accounts	% Change
Raw material	1,160	1,180	1.72%
Work-in-progress	410	430	4.87%
Finished goods	2,500	2,790	11.6%
Stores and spares	220	180	18.18%

Since, the discrepancies in the value of finished goods (11.6%) and stores and spares (18.18%) exceed the 10% threshold specified under clause (3)(ii)(a) of CARO, 2020, the auditor should report these discrepancies accordingly.

13. (i) As per SRS 4410, "Compilation Engagements", financial information that is the subject of a compilation engagement may be required for various purposes including:
- To comply with mandatory periodic financial reporting requirements established in law or regulation, if any or
 - For purposes unrelated to mandatory financial reporting under relevant law or regulation, including for example:

- For management or those charged with governance, prepared on a basis appropriate for their particular purposes (such as preparation of financial information for internal use).
 - For periodic financial reporting undertaken for external parties under a contract or other form of agreement (such as financial information provided to a funding body to support provision or continuation of a grant).
 - For transactional purposes, for example, to support a transaction involving changes to the entity's ownership or financing structure (such as for a merger or acquisition).
- (ii) The practitioner's report issued for the compilation engagement shall be in writing, and shall include the following elements: -
- (a) The report title;
 - (b) The addressee(s), as required by the terms of the engagement;
 - (c) A statement that the practitioner has compiled the financial information based on information provided by management;
 - (d) A description of the responsibilities of management, or those charged with governance as appropriate, in relation to the compilation engagement, and in relation to the financial information;
 - (e) Identification of the applicable financial reporting framework and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information;
 - (f) Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;

- (g) A description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this SRS, and that the practitioner has complied with relevant ethical requirements;
- (h) A description of what a compilation engagement entails in accordance with this SRS;
- (i) **Explanations that: -**
 - (i) Since a compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation; and
 - (ii) Accordingly, the practitioner does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework.
- (j) If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that:
 - (i) Describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information; and
 - (ii) Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes;
- (k) The date of the practitioner's report;
- (l) The practitioner's signature; and
- (m) The place of signature.

14. The type of phishing cyberattack Yuvi fell victim to is Smishing. It is a type of fraudulent practice of sending text messages purporting to be from reputable companies in order to induce individuals to reveal personal information, such as passwords or credit card numbers.

Other types of phishing cyberattacks are:

Spear Phishing: It is a type of phishing attack that targets specific individuals or organizations typically through malicious emails. The goal of spear phishing is to steal sensitive information such as login credentials or infect the targets' device with malware.

Whaling: A whaling attack is a type of social engineering attack specifically targeting senior or C-level executive employees with the purpose of stealing money or information or gaining access to the person's computer in order to execute further cyberattacks.

Vishing: Vishing, a voice phishing attack, is the fraudulent use of phone calls and voice messages pretending to be from a reputable organization to convince individuals to reveal private information such as bank details and passwords.

15. According to Section 129(3) of the Companies Act, 2013, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own.

As per sub-section 6 of section 129 of the Companies Act, 2013, the Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of section 129 or the Rules made thereunder.

An investment entity is an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

An investment entity needs not present consolidated financial statements if it is required, in accordance with paragraph 31 of Ind AS 110, to measure all of its subsidiaries at fair value through profit or loss. A parent shall determine whether it is an investment entity.

However, as per paragraph 33 of Ind AS 110, Parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

Applying the above to the given case of Advik Investments Ltd., which fulfils all the conditions stated above, it is an investment entity. By applying Para 31 and 33 of Ind AS 110, it can be concluded that Advik Investments Ltd. is not required to consolidate as per Section 129 (3) of the Companies Act, 2013.

16.

Sr. No.	Reason for such Query	Action that may be taken in response to the query
1.	In case of sale of NPA, where the sale is for a value higher than the NBV, the auditor is required to ensure that no profit is recognized, and the excess provision has not been reversed but retained to meet the shortfall/ loss that may arise because of the sale of other non-performing financial assets.	The entry for reversal of the excess provision would be cancelled in the books and such excess provision would be retained to meet the shortfall/ loss that may arise because of the sale of other non-performing financial assets.
2.	A State Government Guaranteed advance has to be treated as NPA even if it remains overdue for more than 90 days and in case of NPA, for the purpose of income	Interest income recognized on such advance would be reversed and would be taken to income only when

	recognition, interest on such advance should not be taken to income unless interest is realized.	it is realized.
3.	Accounts for which the ad hoc limit has not been reviewed for 180 days from the date of such ad hoc sanction, should be considered as NPA.	Its treatment in the books would be changed from performing asset to a non-performing asset from the date when such change in the treatment was required.
4.	Net position in respect of each of the foreign currencies should be generally squared and should not be uncovered by a substantial amount.	The net "position" of the branch in relation to each foreign currency should be squared off and get covered by a substantial amount.
5.	Additional temporary limits may be sanctioned, for a maximum of 20% of the existing limit and 90 days maximum tenure.	The terms of additional temporary limit in the case of such account would be revised to 20% of the existing limit and for 90 days maximum tenure.

- 17.** In the given situation, Performance Audit will be conducted as it is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

Some of the methods which could be used in conducting performance audits include:

- (i) Analysis of procedures: It involves review of the systems in place for planning, conducting, checking and monitoring the activity.

This would consist of examination of documents such as financial reports, budgets, programme guidelines, procedure manuals, etc.

- (ii) Case studies: A case study is a descriptive analysis of an entity, scheme or a programme. It involves analysis of a particular issue within the context of the whole area under review.
- (iii) Use of existing data: The audit staff should investigate the data held by entity management and by other relevant sources. Audit conclusions based on testing of available data for correctness and completeness enhances the assurance level.
- (iv) Surveys: Survey is a method of collecting information from members of a population to assess the interrelation of events and conditions. Surveys on predetermined parameters can supplement the audit findings and conclusions adding value to the performance audits.
- (v) Analysis of results: It requires the auditor to carry out actual output-input analysis to determine the efficiency of the programme.
- (vi) Quantitative analysis: It involves examination of available data relating to financials like earnings, revenue, or data relating to programme implementation like details of beneficiaries etc. However, it may not be possible for the auditor to work with complete data due to its high volume. In such cases, sampling techniques are required to be used.

18. Inventory Frauds - Inventory frauds are many and varied but here we are concerned with misappropriation of goods and their concealment.

- (i) Employees may simply remove goods from the premises.
- (ii) Theft of goods may be concealed by writing them off as damaged goods, etc.
- (iii) Inventory records may be manipulated by employees who have committed theft so that book quantities tally with the actual quantities of inventories in hand.

- (iv) Inflating the quantities issued for production is another way of defalcating raw materials and store items.
- (v) Stocks actually dispatched but not entered in sales/ debtor's account.

Verification Procedure for Defalcation of inventory - It may be of trading stock, raw materials, manufacturing stores, tools or of other similar items (readily) capable of conversion into cash. The loss may be the result of a theft by an employee once or repeatedly over a long period, when the same have not been detected. Such thefts usually are possible through collusion among a number of persons. Therefore, for their detection, the entire system of receipts, storage and dispatch of all goods, etc. should be reviewed to localise the weakness in the system.

The determination of factors which have been responsible for the theft and the establishment of guilt would be difficult in the absence of: (a) a system of inventory control, and existence of detailed record of the movement of inventory, or (b) availability of sufficient data from which such a record can be constructed. The first step in such an investigation is to establish the different items of inventory defalcated and their quantities by checking physically the quantities in inventory held and those shown by the Inventory Book. Investigating accountant should ascertain the exact duties of persons handling the stocks received in and issued from store for production/ sale or any other purpose. Identify the excessive control in the hands of a single person, without any supervision as it will widen the scope of investigation.

Afterwards, all the receipts and issues of inventory recorded in the Inventory Book should be verified by reference to entries in the Goods Inward and Outward Registers and the documentary evidence as regards purchases and sales. This would reveal the particulars of inventory not received but paid for as well as that issued but not charged to customers. Further, entries in respect of returns, both inward and outward, recorded in the financial books should be checked with corresponding entries in the Inventory Book. Also, the totals of the Inventory Book should be checked. Finally, the shortages observed on physical verification of inventory should be reconciled with the discrepancies observed on checking the books in the manner mentioned

above. In the case of an industrial concern, issue of raw materials, stores and tools to the factory and receipts of manufactured goods in the godown also should be verified with relative source documents.

Defalcations of inventory, sometimes, also are committed by the management, by diverting a part of production and the consequent shortages in production being adjusted by inflating the wastage in production; similar defalcations of inventories and stores are covered up by inflating quantities issued for production. For detecting such shortages, the investigating accountant should take assistance of an engineer. For that he will be more conversant with factors which are responsible for the shortage in production and thus will be able to correctly determine the extent to which the shortage in production has been inflated. In this regard, guidance can also be taken from past records showing the extent of wastage in production in the past. Similarly, he would be able to better judge whether the material issued for production was excessive and, if so to what extent. The per hour capacity of the machine and the time that it took to complete one cycle of production, also would show whether the issues have been larger than those required.

- 19. Principle 3 – Promote Well-Being of All Employees Including those in the Value Chain:** The third principle relates to all the initiatives an entity has to take for the benefit of its employees from the point of view of their dignity, health, well-being.

The essence of the core elements associated with the principle is:

- (a) The entity should ensure compliance with all regulatory requirements as far as employees are concerned.
- (b) The entities are to respect the dignity of employee as a human being and should not restrict their freedom of associations, unions, and other participatory mechanism for collective bargaining of their rights and redressal of issues they face at the workplace.
- (c) The entities should prevent all kinds of child labour, bonded labour, and any other forms of involuntary labour.
- (d) The entities should have a system in which the work-life balance of the employees is not compromised.

- (e) The businesses have to ensure timely payment of the worker's wages and compensation.
- (f) The payment of the wages has to be as per the living wages, that can take care of the basic needs and provide economic security to the employees.
- (g) The entities are responsible to create a workplace and work environment that is safe, hygienic, and comfortable for people to work for long durations.
- (h) The skill development, career development and training of the workforce is another responsibility of the entities employing them.
- (i) The creation of a workplace which is free of harassment and violence is also a responsibility of the entity.

In the given case, employees have raised issues about delayed salary payments, excessive working hours that affect their work-life balance and complained about inadequate safety measures in the factory.

In view of the above, Sukaran Ltd. must take corrective actions to align with this principle.

- 20. (a)** As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing

auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.

In the given case, KB and Associates are appointed as Statutory Auditors of the Iron Company Ltd. which is a government company as Central Government holds 72% of the paid-up share capital of the company and CA Yash has given a conditional acceptance of the appointment and commenced the audit. In view of the above, it can be concluded that CA Yash is not liable for misconduct and has complied with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereunder.

(b) If CA Yash would have been found guilty of professional misconduct under Clause 8 of Part I of the First Schedule of the Chartered Accountants Act, 1949: The matter would have been placed before the Board of Discipline. The punishment that the Board of Discipline could have imposed would be:

- (i) Reprimand the member.
- (ii) Remove the name of the member upto a period of 3 months.
- (iii) Impose fine upto rupees ₹ 1,00,000/-.